

## Audit Program

**Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.**

[Section 469](#) provides that the assessor shall annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own, claim, possess, or control locally assessable trade fixtures and business tangible personal property. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well managed assessment program.

By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with [section 469](#) and risks the possibility of allowing taxable property to permanently escape assessment.

**Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.**

[Section 532](#) provides that assessments must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to [section 532.1](#), a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

A waiver of this nature protects the taxpayer during the audit process should an overassessment be discovered and allows the assessor to enroll an escape assessment if a reporting deficiency is found. By failing to obtain waivers, the assessor may allow taxable property to escape assessment should the statute of limitations expire prior to the completion of the audit.

**Remove incorrect language advising taxpayers of their appeal rights from the *Notice of Proposed Escape Assessment*.**

In [Letter to Assessors No. 2008/021](#), dated March 10, 2008, the BOE advised county assessors and the county clerks of the board that an assessment made outside of the regular filing period is not effective for any purpose until proper notice is given to the taxpayer in accordance with [sections 534](#) and 1605. The *Notice of Proposed Escape Assessment* is not a valid notice within the meaning of [sections 534](#) and [1605](#). Therefore, an *Application for Changed Assessment* filed solely upon receipt of a *Notice of Proposed Escape Assessment* and filed prior to receipt of a *Notice of Enrollment of Escape Assessment* or a tax bill reflecting the escape assessment is invalid.

The assessor's current *Notice of Proposed Escape Assessment* provides taxpayers with misleading information regarding their rights to appeal an escape assessment because an appeal based on this notice would be invalid.

**Send a *Notice of Enrollment of Escape Assessment* as required by section 534.**

Before an escape assessment can be enrolled, taxpayers must first receive a *Notice of Proposed Escape Assessment*. According to [section 531.8](#), no escape assessment shall be enrolled before ten days after the assessor has mailed or otherwise delivered to the affected taxpayer a *Notice of Proposed Escape Assessment*. Once the minimum ten-day delay period prior to enrollment of the escape assessment has passed, the assessor may enroll the escape assessment. However, [section 534](#) states that no assessment shall be effective until the assessee has been notified of the escape assessment personally or by mail.

The notice of enrollment must include the following information: (1) the date of mailing, (2) information regarding the assessee's right to an informal review and the right to appeal the assessment, and (3) that the assessment appeal must be filed within 60 days of the date of mailing printed on the notice or the postmarked date, whichever is later. [Section 534\(d\)\(2\)](#) expressly provides that the *Notice of Proposed Escape Assessment* required by [section 531.8](#) does not satisfy the notice requirements of [section 534](#).

[Section 534\(c\)\(3\)](#) provides that receipt of a tax bill by an assessee shall suffice as notice under [section 534](#) only for those counties in which the board of supervisors has adopted the provisions of section 1605(c). To assist in meeting the requirements of [section 534](#), the BOE provides a *Notice of Enrollment of Escape Assessment* ([BOE-66-A](#) and [BOE-66-B](#)) for use by assessors.

The assessor's practice of not sending a *Notice of Enrollment of Escape Assessment* as required by [section 534](#) does not adequately inform taxpayers of the right to an informal review of the escape assessment and the right to file an appeal contesting the escape assessment.

**Require a situs inspection as a standard component of the audit process.**

A situs inspection is an essential aspect of any complete audit. [Assessors' Handbook Section 504, Assessment of Personal Property and Fixtures \(AH 504\)](#), discusses the importance of physical inspections in an audit program. An inspection should be standard procedure, especially for audits involving large commercial and industrial operations or in situations involving excess capacity, functional obsolescence, idle plants, or other unusual circumstances.

By foregoing the physical inspection of the property, the assessor risks missing assets that have dropped from the books and the assessor cannot gain a full appreciation of the overall condition of the taxable property. A physical inspection is a fundamental component of the audit process and can be a pivotal step in reaching an informed value conclusion.